

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH05050092

November 13, 2006

**FINAL STATEMENT OF REASONS AND
UPDATED INFORMATIVE DIGEST**

REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES

INTRODUCTION AND UPDATED INFORMATIVE DIGEST

On September 12, 2006, California Insurance Commissioner John Garamendi held a public hearing to consider current rates and the recommendation of the California Automobile Assigned Risk Plan (CAARP) to increase premiums for the California Low Cost Automobile Insurance program by an overall seven percent, with no change to the 25 percent surcharge for certain drivers.

Insurance Commissioner Garamendi has determined, after public hearing and review of all comments, exhibits and testimony, to modify CAARP's recommendation as reflected in the Commissioner's Decision and Order. The Commissioner has determined that an overall rate decrease of -0.7 percent, with no change to the 25 percent surcharge for certain drivers, is adequate to meet the statutory rate-setting standards of California Insurance Code Section 11629.72(c).

CAARP has proposed increasing rates to \$375 for Los Angeles (currently \$355), \$385 for the city and county of San Francisco (currently \$322), \$341 for Alameda (currently \$322), \$335 for Contra Costa (currently \$317), \$315 for Fresno (currently \$299), \$222 for Imperial (currently \$210), \$252 for Kern (currently \$239), \$330 for Orange (currently \$312), \$260 for Riverside (currently \$246), \$404 for Sacramento (currently \$383), \$299 for San Bernardino (currently \$283), \$283 for San Diego (currently \$268), \$312 for San Joaquin (currently \$295), \$324 for San Mateo (currently \$307), \$306 for Santa Clara (currently \$290), and \$379 for Stanislaus (currently \$359), an increase of six percent.

The Commissioner has determined that the appropriate indicated rate change is a decrease of -1.4 percent, thereby decreasing rates to \$350 for Los Angeles, \$318 for Alameda, \$313 for Contra Costa, \$295 for Fresno, \$208 for Imperial, \$236 for Kern, \$308 for Orange, \$243 for Riverside, \$378 for Sacramento, \$280 for San Bernardino, \$265 for San Diego, \$292 for San Joaquin, \$303 for San Mateo, \$286 for Santa Clara, \$354 for Stanislaus, and increasing the rate to \$337 for the city and county of San Francisco.

In addition, CAARP has proposed to increase rates for optional uninsured motorists coverage to \$72 for Los Angeles (currently \$65), \$36 for Alameda (currently \$32), \$31 for Contra Costa (currently \$28), \$57 for Fresno (currently \$51), \$35 for Imperial (currently \$32), \$33 for Kern

(currently \$30), \$41 for Orange (currently \$37), \$36 for Riverside (currently \$32), \$54 for Sacramento (currently \$49), \$44 for San Bernardino (currently \$40), \$29 for San Diego (currently \$26), \$38 for San Joaquin (currently \$35), \$28 for San Mateo (currently \$25), \$27 for Santa Clara (currently \$24), \$49 for Stanislaus (currently \$44), and to decrease rates to \$27 for San Francisco (currently \$39), an overall increase of 9.4 percent.

The Commissioner has determined that the appropriate indicated rate change is 2.9 percent, thereby increasing rates to \$67 for Los Angeles, \$33 for Alameda, \$29 for Contra Costa, \$53 for Fresno, \$33 for Imperial, \$31 for Kern, \$39 for Orange, \$33 for Riverside, \$50 for Sacramento, \$41 for San Bernardino, \$27 for San Diego, \$36 for San Joaquin, \$26 for San Mateo, \$25 for Santa Clara, \$46 for Stanislaus, and decreasing the rate to \$25 for the city and county of San Francisco.

For optional medical payments coverage, CAARP has proposed to increase rates to \$45 for Los Angeles (currently \$29), \$36 for San Francisco (currently \$26), \$28 for Alameda (currently \$18), \$27 for Contra Costa (currently \$17), \$53 for Fresno (currently \$34), \$28 for Imperial (currently \$18), \$29 for Kern (currently \$19), \$38 for Orange (currently \$24), \$22 for Riverside (currently \$14), \$36 for Sacramento (currently \$23), \$28 for San Bernardino (currently \$18), \$23 for San Diego (currently \$15), \$36 for the city and county of San Francisco (currently \$26), \$36 for San Joaquin (currently \$23), \$26 for San Mateo (currently \$17), \$22 for Santa Clara (currently \$14), and \$54 for Stanislaus (currently \$35), an increase of 54.6 percent.

The Commissioner has determined that the appropriate indicated rate change is 28.0%, thereby increasing rates to \$37 for Los Angeles, \$23 for Alameda, \$22 for Contra Costa, \$44 for Fresno, \$23 for Imperial, \$24 for Kern, \$31 for Orange, \$18 for Riverside, \$30 for Sacramento, \$23 for San Bernardino, \$19 for San Diego, \$29 for the city and county of San Francisco, \$30 for San Joaquin, \$21 for San Mateo, \$19 for Santa Clara, and \$45 for Stanislaus. Further details appear in the application on file with the Commissioner and are available for review.

To implement these determinations, the Commissioner has ordered adjustments to the premiums set forth in Exhibit E of the program's Plan of Operations specifying premium and surcharge rates to reflect the above changes and maintenance of the current 25 percent surcharge.

California Insurance Code Section 11629.72(c) provides that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. CAARP did so on February 8, 2006, proposing to increase the rates for Los Angeles, the city and county of San Francisco, Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties by an overall seven percent. Subsequently, CAARP submitted a supplemental proposal on June 22, 2006 applying the overall seven percent rate increase to Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara and Stanislaus counties.

California Insurance Code Sections 11629.7 through 11629.85 establish, within the California Automobile Assigned Risk Plan, established under Section 11620, a statewide low-cost automobile insurance program.

Because the program is established and administered through CAARP, CAARP procedures are applied where appropriate and not inconsistent with the low cost automobile insurance statutes. Insurance Code Sections 11620 and 11624 require the Commissioner to hold a public hearing before amending assigned risk plan rates.

Insurance Code Section 11629.7 requires that, after a public hearing, the Commissioner shall approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible consumers. The plan also contains rules and rates. This plan, approved by the Commissioner, is referenced in Title 10, Section 2498.6 of the California Code of Regulations.

In accordance with these rate-setting procedures and standards, the Commissioner held a public hearing on September 12, 2006 to consider current rates for the expansion counties set by emergency regulations and CAARP's proposal to increase program rates by an overall seven percent. To permit comments to CAARP's updated information, as well as responses to questions at the hearing, the public comment period was extended to October 2, 2006.

The proposed regulations are intended to implement the Commissioner's final action regarding CAARP's rate recommendation, as mandated by Insurance Code Section 11629.72, and conform to Certificate of Compliance procedures for rates established for the expansion counties by emergency regulations, as authorized by Insurance Code Section 11629.79, and clarify program rates. Rulemaking files adopting and readopting such emergency regulations are herein incorporated by reference (CDI File Nos. ER06050509 and ER06091810)

STATEMENT OF SPECIFIC PURPOSE AND NECESSITY

California Insurance Code Section 11629.72(c) requires that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate and surcharge for approval. CAARP has proposed to increase the rates for the low-cost automobile insurance program for each county by an overall seven percent. CAARP has further proposed to maintain the 25 percent surcharge for certain drivers. Details are available in the application on file with the Commissioner and are available for review.

Recent legislation involving the low cost automobile insurance program (SB 20, Escutia) extended the program to Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties, effective April 1, 2006 and further authorized expansion of the program to all counties, at the Commissioner's discretion, subject to specified procedures. The legislation did not set rates, but authorized the Commissioner to adopt regulations establishing a rate, as emergency regulations. To implement the legislation, the Commissioner set rates for the named six counties on an emergency basis, effective April 1, 2006. Following statutory procedures, the Commissioner also expanded the program to eight additional counties: Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties. The Commissioner adopted emergency regulations establishing rates for these counties, effective June 1, 2006.

The rate-setting statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the program or comparable data by

a licensed statistical agent, adjusted to reflect coverage provided by the program. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one county by policyholders in any of the other counties.

In accordance with these rate-setting standards, the Commissioner held a hearing to consider current rates and CAARP's rate proposal and alternatives.

Exhibit E in the program's Plan of Operations specifies annual premiums for insureds, by county, for the liability policy and two optional coverages. These rates reflect the Commissioner's determination of a -1.4 percent decrease in base rates and maintenance of the current 25 percent surcharge for certain drivers, an increase of 2.9 percent for uninsured motorists bodily injury coverage, and a 28 percent increase for medical payments coverage, consistent with statutory rate-setting standards. Adoption of this regulation is necessary to clearly indicate applicable premiums and surcharge so that all eligible consumers, producers, and participating insurers are knowledgeable.

SUMMARY OF AND RESPONSE TO PUBLIC COMMENT

The Department's summary of and response to public comment is contained in the Decision and Order included in the rulemaking file and incorporated herein by reference.

IDENTIFICATION OF STUDIES

CAARP's application and supplemental responses rely upon the expertise of CAARP's technical staff. The Department's determination of rates relies upon the expertise of its professional staff. Other than CAARP's application, updated information, and accompanying explanatory memorandum and exhibits and explanatory memorandum and exhibits submitted by the Foundation of Taxpayer and Consumer Rights, prepared by its consulting actuary, and available for public review in the rulemaking file, no studies have been submitted for this proceeding. All commenters were given an opportunity to comment on all of the comments of the other commenters included in the rulemaking file.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rates would not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

MANDATES

The regulations do not impose a mandate on local agencies or school districts.

FISCAL IMPACT

The Insurance Commissioner has determined that the regulations will not result in any cost or significant savings to any state agency or to any local agency or school district for which Part 7 (commencing with Section 17500) of Division 4 of the Government Code would require reimbursement, or in other nondiscretionary costs or savings to local agencies. Nor will these regulations affect federal funding to the state.

ECONOMIC IMPACT ON BUSINESS

Because the rates apply to private passenger automobile policies, the Insurance Commissioner has determined that the regulations will not have a significant adverse economic impact on businesses, including an ability to compete with businesses in other states. The regulations will have no effect on the creation or elimination of jobs in California, the creation of new businesses, the elimination of existing businesses in California, or the expansion of businesses in California.

IMPACT ON HOUSING COSTS

The Insurance Commissioner has determined that the regulations will not affect housing costs.

COST IMPACT ON PRIVATE PERSONS OR ENTITIES

The Insurance Commissioner has determined that the proposal will not impact businesses, but will affect private persons eligible for a low cost automobile liability policy with respect to the cost of premiums.

EFFECT ON SMALL BUSINESS

The Insurance Commissioner has determined that the regulations will not impact small businesses because insurance producers directly affected are not defined as small businesses. Moreover, the regulations simply clarify rates.

REASONABLE ALTERNATIVES

As set forth in the Decision and Order and elsewhere in this rulemaking file, the Commissioner has determined that no reasonable alternative exists which would be as effective to carry out the statutory mandate and be less burdensome to affected private persons than the proposed regulations.

AVAILABILITY OF DOCUMENTS ON THE INTERNET

The Final Statement of Reasons and Updated Informative Digest and text of regulations will be published online and may be accessed through the Department's website at www.insurance.ca.gov.

FORM 399

The Insurance Commissioner has determined that the proposed regulations do not have a fiscal impact to state agencies, local agencies and school districts or federal funding. Therefore, the Fiscal Impact Statement (Form 399), previously signed June 30, 2006, is still accurate.